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SUBJECT: DRC PROVIDES SICHUAN DEVELOPMENT OVERVIEW

REF: A. A) CHENGDU 069, B) CHENGDU 081, C) CHENGDU 114
[1](#)B. D) CHENGDU 122 E) CHENGDU 239

CHENGDU 00000307 001.2 OF 004

[1](#)1. (U) This cable contains sensitive but unclassified
information -- not for distribution on the internet.

[1](#)2. (U) Summary: Sichuan's Development and Reform Commission (SDRC) expects that the province will meet ambitious 2009 growth targets following a decade of 10 percent annual growth. Official attributed this decade of growth to the Great Western Development (GWD) initiative, provincial government policies, and earthquake reconstruction. Implementation of ambitious transportation infrastructure development plans continues. Energy development plans focus on hydropower as well as on expanded use of other "green" energy sources and improvement of efficiency in coal-fired power plants. The SDRC attributed Sichuan's 2008 energy efficiency shortfall to quake reconstruction, but their Beijing colleagues find this a "flimsy rationale." The SDRC believes Sichuan will meet or exceed its 2009 emission reduction targets. End summary.

[1](#)3. (U) Deputy Director of the Sichuan Development and Reform Commission (SDRC), Liu Yuan, provided Consul General on December 1 with an overview of Sichuan's economy. Liu has been in her current position since 2004. Previously, she spent most of her career in the provincial-level Commission for Economic Restructuring (Tigaiwei) serving in personnel management and Party committee positions. Also in the meeting were: Wu Jianzhong, Deputy Chief of Energy Section; Tang Daisheng, Deputy Chief of Great Western Development Office; and Yue Wen, Deputy Chief of the Transportation Section.

Despite Quake and Economic Crisis,
"Sichuan's Economic Situation is Sound"

[1](#)4. (U) While citing the dramatic impact of the 2008 quake disaster, and moderately negative effects of the global financial crisis in Sichuan, Liu stressed that "Sichuan's economic situation is sound," and that the province is on track to meet its economic targets for 2009. The value of the provincial GDP in 2008 reached over 1.47 trillion RMB (USD 180

billion), according to official statistics. She said 68.6 percent of planned investment has been completed, totaling 975 billion RMB (about USD 143 billion), although she did not provide further specifics regarding the focus or timeframe for most projects. Commercial retail sales are projected to reach 463 billion RMB (USD 68 billion) in 2009, about 20 percent higher than the previous year, and five percent higher than the national average for the same period. Liu claimed the total value of Sichuan's foreign imports and exports would reach USD 18.47 billion this year, up by five percent from last year. She emphasized that Sichuan was the only Chinese province that saw increased foreign trade in the first three quarters in 2009. (Note: It is unclear how Liu or the SDRC calculated the 2008 figures they mentioned. These figures do not match officially recorded statistics published in the Sichuan Statistical Yearbook, which show that the value of imports and exports for 2008 stood at USD 22 billion, i.e. significantly higher than the projection for 2009. End Note.)

Impact of Quake ...

15. (U) The impact of the 2008 quake on the economy was significant, causing economic losses of over one trillion RMB, but has also presented opportunities for economic development. She noted that two-thirds of central government's 300 billion RMB (approx. USD 44 billion) reconstruction fund was allocated for projects in Sichuan. The province has also received extensive support from 21 provinces and municipalities mandated by the central government to spend one percent of annual revenues on quake reconstruction projects. Increased credit access have also helped, she said, but did not provide further

CHENGDU 00000307 002.2 OF 004

details on who has benefited from credit flow increases. (Note: We understand that most of the increased credit access has benefited the bigger companies - often SOEs -- carrying out the many large-scale quake reconstruction projects. Additionally, a portion of families rebuilding quake-destroyed homes have seen some improved access to bank loans for this purpose, typically capped at 20,000 RMB (USD 2500) per family. End Note.)

... and Global Financial Crisis

16. (U) Discussing the impact of the global economic crisis, Liu emphasized that Sichuan's relatively low reliance on international trade helped it weather the storm more smoothly than other provinces. According to third quarter 2009 statistics, the employment difficulties faced by Sichuan's estimated 20 million migrant workers early in the year have largely disappeared, with employers even facing worker shortages, she said. She noted that the employment difficulties were resolved faster than the Sichuan government had anticipated, although she did not elaborate on this point.

Great Western Development Driving a Decade of Growth

17. (U) Liu credited GWD policies with helping to stimulate economic growth in Sichuan over the last decade. The provincial

government and party organs have also played crucial roles in issuing the "correct development strategies" she emphasized. This has included their emphasis on "one hub" -- developing Chengdu as a transportation hub in western China; "three centers" -- developing financial/banking, logistics and commercial centers in western China; and, "four bases" -- developing natural resources, processing and manufacture, science and technology innovation, and agriculture products processing. Additional and related drivers of growth included regional advantages (quwei youshi), increased foreign investment, and accelerating industrialization and urbanization, she said.

18. (U) As a result of these policies, Liu said, Sichuan saw a decade-long average annual growth rate of 11.3 percent. This beat the national average of 9.9 percent in the same period, placing Sichuan in ninth place among all the provinces in terms of the total GDP value. Sichuan's total GDP value now accounts for a quarter of the total in western China. (Note: Liu did not specify which provinces were included in this statistic, but official statistics for 2008 suggest that she was referring to a group of 10 provinces that includes Shaanxi, Chongqing, Guizhou and the provinces further west. End note.) The 2008 GDP growth rate of 9.5 percent marked the first time in many years that Sichuan's growth rate had dropped below 10 percent. Nevertheless, Liu assessed the province's growth is still "too slow" in light of the fact that per capita GDP still stands at under 70 percent of the national average.

"Transportation Hub" Development Continues Apace;
Chengdu-Lhasa Railway Construction Start Uncertain

18. (U) Sichuan has made notable progress in transportation infrastructure development (ref B) with new expressways rendering most prefecture-level cities now within two-three hours drive of Chengdu. The present length of expressways in the province now stands at about 3,000 kilometers, a six-fold increase over a decade ago. Ongoing construction will add another 700 kilometers by 2012, and the total is planned to reach 8,600 kilometers by 2020. In addition to ongoing efforts to also expand rail and air links, provincial planners have placed particular emphasis on creating a network of high-speed railways, especially for city-to-city links. Approval for a

CHENGDU 00000307 003.2 OF 004

Sichuan-Guizhou high speed rail is expected soon, and will allow travelers to complete the Chengdu-Guiyang trip in about four hours. Rail travel to Guangzhou from Chengdu will then be possible in about eight hours.

19. (U) Construction of both expressways and railways to Yunnan and to connect Sichuan with Southeast Asian countries remains a priority goal of transportation infrastructure development. Liu highlighted Sichuan's participation in the annual Pan-Pearl River Delta Conference as well as an agreement signed with Yunnan province on transportation links between the two provinces and to Southeast Asia. (See Ref A for discussion of the provincial protectionism challenges that may stymie Sichuan's ambitions on this front.)

10. (SBU) In contrast with reports we saw several months ago, which cited plans to commence building the Chengdu-Lhasa Railway within the calendar year, Liu described the project as

"impossible to start in the near future." Noting that mid- and long-term plans have been approved for the railway, she emphasized the "two kinds of planning" employed in China - one "to really put into practice" and the other to implement at some point in the future "according to economic and other situations." The Chengdu-Lhasa Railway currently belongs to the latter category, she said.

Energy: Hydropower Main Energy Source ...

¶11. (U) Sichuan will continue to develop the province's hydropower potential, which currently accounts for about 65 percent of total energy production. According to SDRC projections, this will increase to over 80 percent within a decade. (See Ref C for statistics on provincial hydropower resources provided previously by SDRC). Asked whether there is much external investment in hydropower, Liu responded that "it is hard to say." However, she noted that several small hydropower stations approved by the provincial Government have applied for United Nations Clean Development Mechanism funding (ref E).

... Closing Small Coal-fired Plants ...

¶12. (U) Outside of hydropower, the remainder of Sichuan's energy comes primarily from coal (although efforts are underway to develop "green energy" sources - see Ref C). The SDRC is emphasizing the need to close down less efficient power production. SDRC officials noted that all thermal power plans with an installed generating capacity of less than 50 megawatts will be required to close down. Others assessed to fall short in energy efficiency or emission standards are also being closed, according to the SDRC. Shanwayao Thermal Power Plant and Chengdu Thermal Power Plant, each with installed capacities of around 200 megawatts, were cited as examples of the latter. As for new thermal power projects, only those with an installed capacity of at least 600 megawatts are being approved.

... and Expanding Use of Natural Gas

¶13. (U) Natural gas exploitation, on the other hand, will see some expansion. The province is rich in natural gas, with proven recoverable reserves within the Sichuan basin (including Chongqing) reaching 780 billion cubic meters, the third highest among all provinces in China (behind Xinjiang and Shanxi). SDRC officials noted that Sichuan has played an important role in the campaign to transmit more natural gas sourced in the west to meet eastern power demand. Liu highlighted a recently approved plan to potentially build a natural gas-fired power plant in

CHENGDU 00000307 004.2 OF 004

Dazhou, north of Chongqing, that if completed might have a total installed generation capacity of 330 megawatts. Another gas-fired plant might be built in Jiangyou, in northern Sichuan, although it is unclear if these projects will go forward.

Sichuan's Energy Efficiency Targets:

Failed in 2008, But "On Track" for 2009

¶14. (U) Acknowledging Sichuan's failure to reach its energy efficiency reduction targets in 2008, as recently cited in a Ministry of Environmental Protection report, Liu cited the immense post-quake reconstruction needs as the primary culprit. Many small cement, iron, steel and other building supply factories that would otherwise have been shut down were allowed to continue operations. (Comment: A November article in China Economic Week, however, quoted an expert from the National Development and Reform Commission characterizing the SDRC explanation as a "flimsy rationale.") Sichuan has drafted plans to improve the situation, she said, and will catch up with other provinces. While the province was only able to obtain a three percent emission reduction in 2008, versus the four percent national average, this is expected to increase to six percent for 2009. (See ref E regarding Sichuan officials on energy efficiency tactics.)

¶15. (U) Liu clarified that the SDRC has the overall responsibility for energy savings and emission reductions throughout the province, while the economic department is in charge of energy saving and emission reduction in industrial sector. Discussing the particular measures being taken to reduce emissions, Liu cited emission reduction assessments that all new projects must pass before commencing. Older factories, she claimed, must improve their facilities if they fail to meet environmental standards. If standards are still not met, they must voluntarily cease production or be shut down by the government. Moreover, Sichuan will continue to take actions to close down five types of small industries credited with producing a large proportion of pollution: cement, iron and steel, and fertilizer factories; small coal mines; and small paper mills.

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